



## CUSIP NUMBERS: HOW A WELL-ESTABLISHED MARKET TOOL MAY CONTRIBUTE TO IMPROVING CONTINUING DISCLOSURE

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Committee on Uniform Security Identification Procedures (CUSIP) numbers are unique identification numbers assigned to each maturity of a domestic debt or equity issuance. A similar system exists for foreign securities. These numbers are used by all sectors of the financial industry for identifying, clearing, and settling securities as well as for other functions. This article describes the origins of the CUSIP numbering system and its features, discusses a Securities and Exchange Commission (SEC) study on secondary disclosure practices, and provides information and recommendations for the use of CUSIP numbers in continuing disclosure reports.

### Origins of the CUSIP Numbering System

According to Standard and Poor's, current administrators of the CUSIP system, the New York Clearing House Association established a Securities Procedures Committee in 1962 to study the question of developing a standard method of identifying securities and approached the American Bar Association's (ABA's) Department of Automation to develop the system. In 1964, the ABA's CUSIP was created with the main goals of developing specifications for a uniform security identification system, devising a format for imprinting the identification number on the certificate in both human- and machine-readable formats, and establishing an agency to administer the identification system. The Committee determined that the number should:

- contain as few characters as possible;
- be linked to an alphabetical sequence of issuer names;
- be flexible enough to accommodate future expansion; and
- be adaptable to the internal systems of all users, to communications systems, and to automated document reading.

In 1967, the ABA announced the development of the CUSIP numbering system.

### Features of the System

The CUSIP numbering system identifies specific security issuers and their issues of stocks, bonds, and notes

for corporate, municipal, state, and federal issues (see sidebar for a description of the numbering system for international securities). Under the CUSIP system, a unique nine-digit CUSIP number is assigned to a security (or debt issuance). The first six digits identify the issuer and are assigned to issuers alphabetically. The next two digits identify the issue. Securities with different interest rate structures and/or maturities are assigned unique numbers. The ninth digit is the check digit, which provides the means of determining the accuracy of the whole number used in data transmission.

The CUSIP number provides brokers, banks, exchanges, and institutions with a uniform number that is used in all phases of their security dealings — wire communications, transaction reports, delivery tickets, transfers, pricing services, dividend claims, and bookkeeping. Using CUSIP numbers minimizes the confusion and delays that may arise during the processing of securities.

There are over 7 million outstanding CUSIP numbers. For California state agencies alone, 96 agencies have outstanding CUSIP numbers, representing 9,000 issues.

In the municipal arena, for negotiated issues, preliminary official statements and subsequent final official statements (OSs) are required to be sent to the CUSIP service bureau for assignment of a CUSIP number. For competitive issues, notices of sale (again followed by a final OS) are required to be sent. CUSIP numbers also are required for private placement memoranda. For short-term notes, a notice of sale and/or a legal opinion are required to be sent to the CUSIP service bureau. Requests for assignment of CUSIP numbers

### INTERNATIONAL SECURITIES

For securities actively traded on an international basis, which are either underwritten (debt issues) or domiciled (equities) outside the United States and Canada, the securities will be identified by a CINS (CUSIP International Numbering System) number. The CINS number was developed in 1988 by Standard & Poor's and Telekurs (USA) in response to the North American securities industry's need for a 9-character identifier for international securities.

should be sent to the CUSIP Service Bureau (see sidebar). Normally, it is the underwriter's responsibility for obtaining the CUSIP number, but occasionally, this responsibility rests with the bond counsel.

### **Use of CUSIP Numbers for Continuing Disclosure Reporting**

A recent study by the SEC based on a group of 30 randomly selected bond issues sold in 1996 and 1997 preliminarily found that only 57 percent to 75 percent of the disclosure documents that should have been filed by the issuers of those securities were filed with municipal disclosure repositories. One possible explanation for such a low disclosure rate is that often disclosure repositories receive inadequate information for them to identify the issue being reported. A number of industry groups recently advocated the better use of CUSIP numbers as a way of more accurately disseminating continuing disclosure information. For instance, the Muni Council, an organization comprised of representatives of municipal market groups, recently met to discuss several items that could improve continuing disclosure, including the use of CUSIP numbers in disclosure filings. In

addition, the Investment Company Institute, the national association of the American investment company industry, recently sent a letter to the SEC advocating, among other things, greater use of CUSIP numbers in municipal securities transactions. Lastly, the National Federation of Municipal Analysts, in a letter to the Municipal Securities Rulemaking Board, advocated that CUSIP numbers should be included in the final official statements and all secondary market reports. It also recommended that repositories identify issues by CUSIP number.

### **Recommendations**

CDIAC recommends that issuers use CUSIP numbers when submitting required continuing disclosure information to disclosure repositories. To assist repositories to more accurately disseminate this disclosure information, CDIAC recommends that issuers submit The Bond Market Association's "Municipal Secondary Market Disclosure Information Cover Sheet" with continuing disclosure information. If used consistently and filled out correctly with CUSIP numbers, this cover sheet could greatly improve the accurate tracking of continuing disclosure information.

**MUNICIPAL SECONDARY MARKET DISCLOSURE  
INFORMATION COVER SHEET**

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

\* \* \*

Issuer's and/or Other Obligated Person's Name: \_\_\_\_\_

**CUSIP Numbers** (attach additional sheet if necessary):

Nine-digit number(s) to which the information relates:

Information relates to **all securities** issued by the issuer having the following six-digit number(s):

\* \* \*

Number of pages of attached information: \_\_\_\_\_

Description of Material Event Notice/Financial Information (Check One):

1.  Principal and interest payment delinquencies
2.  Non-payment related defaults
3.  Unscheduled draws on debt service reserves reflecting financial difficulties
4.  Unscheduled draws on credit enhancements reflecting financial difficulties
5.  Substitution of credit or liquidity providers, or their failure to perform
6.  Adverse tax opinions or events affecting the tax-exempt status of the security
7.  Modifications to rights of security holders
8.  Bond calls
9.  Defeasances
10.  Release, substitution, or sale of property securing repayment of the securities
11.  Rating changes
12.  Failure to provide annual financial information as required
13.  Other material event notice (specify) \_\_\_\_\_
- \*14.  Financial information: Please check all appropriate boxes:  
 CAFR: (a)  includes  does not include Annual Financial Information  
(b)  Audited? Yes  No   
 Annual Financial Information: Audited? Yes  No   
 Operating Data  
Fiscal Period Covered: \_\_\_\_\_

\*Financial information **should not** be filed with the MSRB.

\* \* \*

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature: \_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Employer: \_\_\_\_\_

Address: \_\_\_\_\_

City, State, Zip Code: \_\_\_\_\_

Voice Telephone Number: \_\_\_\_\_

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